MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2021/2022

DMG5024 – MANAGEMENT ACCOUNTING 2

(All sections/Groups)

29 APRIL 2022
9.00 A.M – 12.00 P.M
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 8 pages.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

PART A

Plus Corporation processes recycle papers which it sells to box manufacturers. In 2021, the company incurred RM360,000 of costs to produce 50,000 kilograms of the papers. The selling price of the paper is RM12.00 per kilogram. The costs to manufacture one kilogram of the paper are presented below:

Direct materials	RM4.00
Direct labor	0.80
Variable manufacturing overhead	0.60
Fixed manufacturing overhead	0.20
Total manufacturing costs	RM5.60

The company is considering manufacturing the box itself. If the company processes the paper further and manufactures the box itself, the following additional costs per kilogram will be incurred: Direct materials RM2.70, Direct labour RM1.60, Variable manufacturing overhead RM0.90. No increase in fixed manufacturing overhead is expected. The company can sell the box at RM15.50 per kilogram.

Required

1) Determine the incremental per kilogram increase in net income and the total increase in net income if the company manufactures the box.

(9 marks)

2) Should Plus Corporation sell paper or process further to boxes? Why?

(1 mark)

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PART B

Nisno Company has four operating divisions which are AA, BB, CC and DD. The top management of Nisno Company are concerned about the loss from operations from its division, AA. During the first quarter of 2021, the company reported aggregate income from operations of RM330,000 and the following divisional results:

	Divisions			
	AA	BB	CC	DD
Sales	RM220,000	RM330,000	RM550,000	RM680,000
Cost of goods sold	200,000	110,000	250,000	450,000
Selling and administrative expenses	80,000	90,000	120,000	150,000
Income/(loss) from operations	(RM60,000)	RM130,000	RM180,000	RM80,000

Analysis reveals the following percentages of variable costs in each division.

	Divisions			
	AA	BB	CC	DD
Cost of goods sold	60%	75%	65%	80%
Selling and administrative expenses	45%	70%	60%	55%

The management analysis also revealed that if any division is discontinued, the company can save 40% of that division's fixed costs and fixed expenses.

Required

Prepare an incremental analysis concerning the discontinuance of Division AA. What course of action do you recommend for Division AA?

(10 marks)

(Total: 20 marks)

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QUESTION 2

Part A

Waqyu Company makes various plastic products. The company is divided into multiple departments that can either sell to other internal departments or sell externally. All the divisions are in various buildings on the same piece of land. The Moulding Division has offered the Chemical Division RM45 per unit to supply it with chemical ingredients for 3,000 units of mould. Moulding Division has been purchasing these chemical ingredients for RM50 per unit from outside suppliers. The Chemical Division receives RM45.50 per unit for sales made to outside customers for this type of mould. The variable costs of chemicals sold externally by Chemical Division are RM34.50. Chemical Division estimates that it will save RM5.50 per chemical ingredient on unit sold internally to the Moulding Division.

Required

1) Calculate the minimum transfer price that the Chemical Division should accept, assuming there is no excess capacity.

(5 marks)

2) Calculate the minimum transfer price that the Chemical Division should accept, assuming there is excess capacity.

(4 marks)

3) Discuss whether it is the Chemical Division's best interest to accept the offer.

(2 marks)

Part B

Philea Company, an accounting firm provides services to government and corporate clients. Philea has two support departments, Administrative and Information System Departments, and two other operating departments, Accounting and Auditing Department. For the first quarter of 2022, Philea Company's cost records indicate the following:

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	Support Departments		Operating Departments		
	Administrative	Information System	Accounting	Auditing	Total
Budgeted overhead costs before any inter-department cost allocation	RM800,000	RM2,600,000	RM8,900,000	RM13,500,550	RM25,800,550
Support work supplied by Administrative Department (budgeted head count)	-	40%	25%	35%	
Support work supplied by Information Systems Department (budgeted computer time)	20%	-	50%	30%	

Required

Using step down method, allocate the two support departments costs to the two operating departments.

(9 marks)
(Total: 20 marks)

QUESTION 3

Rossa and Kris are partners for Beauty Hair Saloon which offers two primary services, hair cut and hair colouring. A dispute has arisen between Rossa and Kris about the two services lines as to whom is contributing the greater amount to the business. The area of contention is the overhead costs allocation. Rossa argues that they should assign overhead based on 900 times of direct labour hours, while Kris argues for the adoption of the activity based costing method. The partners agree to use next year's budgeted data for the purpose of analysis and comparison. The following overhead data are collected to develop the comparison.

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			Expected use of costs drivers per service	
Activity cost pool	**Cost drivers**	**Estimated overhead**	**Hair Cut**	**Hair Colouring**
Purchasing	Number of orders	RM719,600	600	800
Employee training	Direct labour hours	RM78,000	500	1,000
Cleaning saloon	Number of customers	RM67,200	6,500	3,500
Washing tools and equipment	Number of hair customers	RM84,000	198,000	362,000
Facility rental	Number of Square Feet	RM86,800	400	600
Quality control	Number of inspections	RM19,530	53	73

Required

1) Using traditional costing method proposed by Rossa, compute the total overhead cost assigned to both hair cut and hair colouring services for Beauty Hair Saloon

(3 marks)

2) Using activity based costing method proposed by Kris, prepare a schedule showing the computations of the activity based overhead rates.

(4.5 marks)

3) Prepare a schedule assigning each activity's overhead cost pool to each service based on the use of the cost drivers.

(6.5 marks)

4) Comment on the comparative overhead costs for the two services under both traditional costing and ABC.

(6 marks)

(Total: 20 marks)

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QUESTION 4

Joy Fantasy Company is preparing its budget for the year 2023. As the company has expanded its business, total sales for the year are expected to increase by quarter according to the percentage as below when compared to quarter 1.

Quarter	
1	5%
2	10%
3	15%
4	20%

The selling price per unit is expected to maintain at RM85 per unit for the first three quarters and RM90 per unit for the last quarter. Total sales in the first quarter 2023 are expected to be 800,000 units and expected to increase to 1,200,000 units in Quarter 1 2024. Management of Joy Fantasy Company desires to maintain the ending finished goods inventories at 14% of next quarter's budgeted sales volume.

Required

1) Prepare the sales budget of the company by quarter for the year 2023.

(8 marks)

2) Prepare the production budget for Joy Fantasy Company by quarter for the year 2023.

(12 marks)

(Total: 20 marks)

QUESTION 5

PART A

Reez Company processes potato into various food products. In July 2021, Reez Company incurred joint costs of RM80,000 to purchase potatoes and process them into two saleable products: potato bread and potato wedges. Although there is an active outside market for potato wedges, Reez Company processes all 1,230 kilograms of potato bread it produces

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into 980 kilograms of potato snacks, which is then sold. There were no beginning or ending inventories of potato, potato bread, potato wedges and potato snacks. In July, information for July 2021 production and sales are as follow:

	Joint costs	**Potato snacks**
Joint costs (costs of potato and processing to split off points)	RM80,000	
Separable costs		RM11,100

	Potato Bread	**Potato Wedges**	**Potato Snacks**
Beginning inventory (kgs)	0	0	0
Production (kgs)	1,230	2,480	980
Transfer for further processing (kgs)	1,230		
Sales (kgs)		2,480	980
Ending inventory (kgs)	0	0	0
Selling price per kg in active outside market (for products not actually sold)	RM15		
Selling price per kg for products sold		RM23	RM40

Required

Allocate the joint costs of RM80,000 between potato bread and potato wedges under:

a) The sales value at split off method.

(7 marks)

b) The physical value method.

(6 marks)

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PART B

Johndough Company uses standard costs with its job order cost accounting system. In January 2022, the company receives an order for Job A1 for 1,500 units of Product A. The standard costs of one unit of Product A are as follow:

Direct materials	2.5 kilograms at RM1.20 per kg	RM3
Direct labor	1.2 hour at RM9.90 per hour	RM11.88
Overhead	2.3 hour (variable RM3 per machine hour; fixed RM2 per machine hour)	RM11.5
Standard costs per unit		RM26.38

The company did not maintain an inventory of its materials. Therefore, the materials purchased each month are used that month. Monthly budgeted fixed overhead is RM14,000. Actual activity for the month of January 2022, when Job A1 is completed, is as follows:

Direct materials (2,520 kgs of materials)	RM3,780
Direct labour (1,500 hours)	RM13,800
Variable overhead	RM5,000
Fixed overhead	RM17,400

Required

Compute the total variance for the followings:

a) Material

(3 marks)

b) Overhead

(4 marks)

(Total: 20 marks)

End of Paper